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BEFORE THE ARIZONA CORPORATION COMMISSION

MIKE GLEASON
Chairman
WILLIAM A. MUNDELL
Commissioner
JEFF HATCH-MILLER
Commissioner
KRISTIN K. MAYES
Commissioner
GARY PIERCE
Commissioner

Arizona Corporation Commission

DOCKETED

DEC - 4 2007

DOCKETED BY

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IN THE MATTER OF COMPETITIVE
PROCUREMENT ISSUES IN THE
GENERIC INVESTIGATION INTO
ELECTRIC RESOURCE PLANNING

DOCKET NO.E-00000E-05-0431

DECISION NO. 70032

ORDER

Open Meeting
November 27 and 28, 2007
Phoenix, Arizona

BY THE COMMISSION:

FINDINGS OF FACT

Introduction

1. Commission Decision No. 67744 directed Staff to schedule workshops on resource planning issues. Additionally, as part of the Settlement Agreement of that case, it was agreed that "the Commission Staff will schedule workshops on resource planning issues to focus on developing needed infrastructure and developing a flexible, timely, and fair competitive procurement process." (Paragraph 79, Settlement Agreement).

2. On April 5, 2007, Staff docketed a Request for Meetings Notice, and indicated that a series of three workshops specifically related to issues of competitive procurement would be held, and that the remaining issues related to resource planning would be conducted in other workshops and noticed separately. Three workshops on competitive procurement were held on April 25, 2007; May 23, 2007; and July 13, 2007. Eight entities filed nine sets of written comments.

3. On October 2, 2007, Staff issued a Draft Staff Report on Competitive Procurement Issues, with a request for comments to be filed by October 12, 2007. Six entities filed comments in response to the Draft Staff Report. Along with its memo, Staff filed its Final Staff Report on Competitive Procurement Issues.

Discussion

4. It is Staff's intention to continue to facilitate competitive wholesale market options for the acquisition of resources to serve electric consumers. Staff believes that conducting a rulemaking on procurement issues is premature at this time. To enable the procurement process to go forward expeditiously, Staff has recommended that the Commission adopt Recommended Best Practices for Procurement. The Recommended Best Practices include types of acceptable methods of procurement, a preference for requests for proposals ("RFPs"), and the role of an independent monitor. Staff believes that these Recommended Best Practices would provide a means by which the Commission, ratepayers, and bidders in the wholesale market can be assured that the procedures for obtaining new resources are fair, transparent, and result in the most economical resources being selected.

Staff Recommendation

5. Staff has recommended that the Commission adopt the following Recommended Best Practices for Procurement.

RECOMMENDED BEST PRACTICES FOR PROCUREMENT

Procurement Methods

1. The following procurement methods are considered to be acceptable for the wholesale acquisition of energy, capacity, and physical power hedge transactions:
 - A. Purchases through third party, on-line trading systems, including but not limited to the Intercontinental Exchange, Bloomberg, California Independent System Operator, New York Mercantile Exchange, or other similar on-line third party systems.
 - B. Purchases from qualified, third party, independent energy brokers.
 - C. Purchases from non-affiliated entities through auctions or a request for proposals ("RFP") process.

- 1 D. Bilateral contracts with non-affiliated entities.
- 2 E. Bilateral contracts with affiliated entities, provided that non-affiliated entities are
- 3 provided notice of and an opportunity to beat any proposed contract before
- 4 executing the transaction.
- 5 F. Any other competitive procurement process approved by the Commission.
- 6 2. Utilities should seek to use an RFP as the primary acquisition process. Exceptions may
- 7 include the following:
- 8 A. For emergencies. An emergency is an unknown and unforeseeable condition (i) not
- 9 arising from acts or omissions by the utility which are not in accord with good utility
- 10 practice, (ii) that is temporary in nature, (iii) that threatens reliability or poses some
- 11 other significant risk to the system, and (iv) where the subject procurement is not
- 12 greater in quantity or duration than what is necessary for the utility to restore the
- 13 system to a safe and reliable condition.
- 14 B. For short-term acquisitions to maintain system reliability.
- 15 C. For other components of energy procurement, such as transmission projects, fuels,
- 16 and fuel transportation.
- 17 D. When the planning horizon is two years or less.
- 18 E. When a utility encounters a genuine, unanticipated opportunity to acquire a power
- 19 supply resource at a clear and significant discount when compared with the cost of
- 20 acquiring new generating facilities that will provide unique value to customers.
- 21 F. For transactions that satisfy obligations under the Renewable Energy Standard rules
- 22 and for demand-side management/demand response programs.

23 Independent Monitor

- 24 1. An independent monitor should be used in all RFP processes for procurement of new
- 25 resources.
- 26 2. The utility should consult with Commission Staff and jointly select three to five
- 27 companies or consultants ("vendor list") who can serve as an independent monitor.
- 28 3. The utility will file its vendor list in this docket for interested parties' review. Parties
- will have 30 days to object to a vendor's inclusion on the list.
4. Within 60 days of the filing of the vendor list, Staff will endorse the vendors it
- determines are appropriate. Once the vendors are endorsed by Staff, the utility would
- be able to retain any of the authorized vendors for future RFPs. The utility is required
- to provide written notice to Staff of its retention of the independent monitor.

5. The utility should enter into a contract with the monitor and should pay the monitor. Reasonable bidders' fees may be used to help offset these costs. When appropriate, the utility may request recovery of its payments to the monitor in customer rates.
6. One week prior to the deadline for submitting bids, the utility should provide the independent monitor with a copy of any bid proposal prepared by the utility or its affiliate, or any benchmark or reference cost the utility has developed against which to evaluate the bids. The independent monitor should take steps to secure the utility bid or benchmark price in a location not known or accessible to any of the bidders or the utility or its affiliate.
7. The independent monitor should provide reports (at least monthly) to Commission Staff throughout the RFP process.

CONCLUSIONS OF LAW

1. The Commission has jurisdiction the subject matter of the application.
2. The Commission, having reviewed the application and Staff's Memorandum dated November 6, 2007, concludes that it is in the public interest to adopt the Recommended Best Practices for Procurement.

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Age Group	U.S. Should Take Action to Reduce Global Warming (%)
18-29	85
30-49	75
50-69	65
70+	55

ORDER

IT IS THEREFORE ORDERED that the Recommended Best Practices for Procurement is adopted.

IT IS FURTHER ORDERED that this Decision shall become effective immediately.

BY THE ORDER OF THE ARIZONA CORPORATION COMMISSION

Samuel S. McLean
CHAIRMAN

William A. Miller
COMMISSIONER

Jeffrey W. Harte-Miller
COMMISSIONER

R. M. [Signature]
COMMISSIONER

Greg [Signature]
COMMISSIONER

IN WITNESS WHEREOF, I DEAN S. MILLER, Interim Executive Director of the Arizona Corporation Commission, have hereunto, set my hand and caused the official seal of this Commission to be affixed at the Capitol, in the City of Phoenix, this 4th day of December, 2007.

Dean S. Miller
DEAN S. MILLER
Interim Executive Director

DISSENT: _____

DISSENT: _____

EGJ:BEK:lhmk/T

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DOCKET NO. E-00000E-05-0431

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